



Demand being driven by Insurance & Financial services, while Tech & Media sector remains quiet

Take-up for May reached 498,322 sq ft across 27 deals, resulting in the total for the year reaching 2.0m sq ft, which is down on this point last year by 29%, and down on the 10-year average for this time period by 8%. This brings the 12-month rolling total to 6.9m sq ft, the lowest it has been since July 2017.

The demand for space in the fringes of the City appears to have been reduced this year. The City core has accounted for 68% of take-up at the end of May, with the fringes accounting for the remaining 32%, which is down on the 5-year average of 46%.

The largest deal to complete in May saw the financial advisors Brewin Dolphin acquire the whole of 25 Cannon Street, EC4 (114, 388 sq ft). They acquired the space from developer Pembroke at £68.00/sq ft, on a straight 15 year lease believed to commence in August 2021, with the relocation happening in July 2022. They will be moving from their current location at 12 Smithfield Street, EC1, where they have been for 12 years.

Also in May, we saw Brewin Dolphin competitor Smith & Williamson acquire 86,975 sq ft across levels ground to fourth with part of the fifth at Gresham St Pauls, 40 Gresham Street, EC2. They have acquired the AFIAA/ Stanhope scheme also at £68.00/sq ft and will be relocating from their current offices at 10 and 25 Moorgate, EC2 when the scheme completes in Q3 2020.

The Insurance & Financial services sector is driving demand in the City currently with 27% of the share of take-up, with the Serviced Office Provider sector coming in second with 18% share, and the Professional services sector in third with 11%. However, it is very surprising to see the Tech & Media sector has only accounted for 8% at the end of May,

equating to just 157,209 sq ft, down on this point last year by 55% and the 10-year average to the end of May by 50%. An explanation could be that Tech & Media occupiers are choosing to move into serviced offices, who continue to expand despite widespread caution. The Serviced Office Provider sector has seen 363,349 sq ft of take-up so far this year, up on this point last year by 78% and up on the 10-year average to the end of May by 199% (Graph 1).

Total City supply at the end of May stood at 6.6m sq ft, falling by 1.8% on the end of last month and equating to a vacancy rate of 5.1%, which is down on May 2018 by 70 bps, and down on the long term average by 150 bps. However, this will increase at the end of Q3 when we include all schemes due to complete in Q1 2020 into current supply. This will include 22 Bishopsgate, EC2 which still has circa 1m sq ft of space remaining, although we believe approximately 200,000 sq ft is currently under-offer here.

Another explanation as to why take-up in the fringes is down this year, could be the lack of supply available there. There is currently just 2.7m sq ft of available supply in the Northern & Eastern fringe, Midtown and the Southbank combined, which equates to a vacancy rate of just 3.9%.

The limited supply seems to be having a positive effect on rents across all submarkets of the City, although we are also seeing a decrease in the differential between the markets. At the end of May, the average grade A rent in the City core is £64.90/sq ft, up on last year by 3.2%. Meanwhile, the average grade A rent in the City fringes has risen 9.8% on last year, currently settling at £64.82/sq ft. This is just an £0.08/sq ft difference between the two markets, compared with a difference of £3.86/sq ft last year (Graph 2).

68%

of take-up has been in the City core



30 deals

so far this year from I&F services, up on this point last year by 7 deals



1.78m sq ft

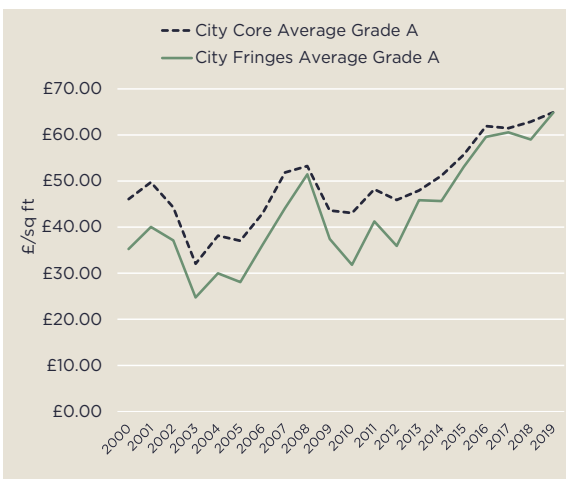
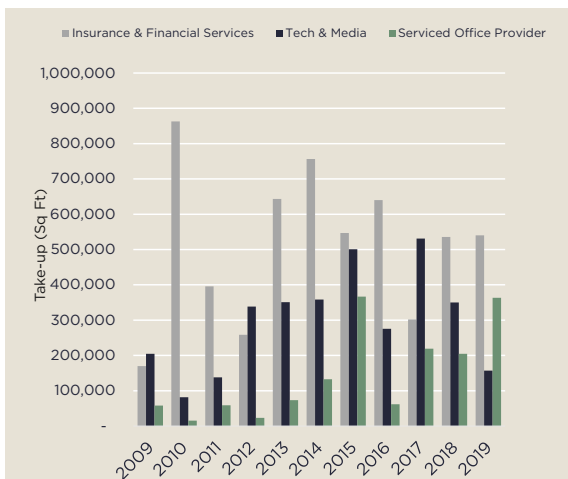
of new supply will be getting added to current supply at the end of Q3

Take-up to the end of May for key sectors

City submarket average grade A rent

Graph 1

Graph 2



15 deals

to the Serviced Office Provider sector at the end of May. The most ever at this point in the year

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jun-18	676,851	69%	7,811,310
Jul-18	650,113	75%	8,006,249
Aug-18	329,294	83%	7,301,906
Sep-18	808,382	86%	7,582,153
Oct-18	890,128	98%	7,778,926
Nov-18	829,476	83%	7,948,000
Dec-18	667,710	89%	7,706,299
Jan-19	243,597	87%	7,497,564
Feb-19	274,698	78%	7,595,612
Mar-19	627,854	69%	7,435,604
Apr-19	371,577	78%	7,345,178
May-19	498,322	88%	6,868,002

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - May 18	2,854,345	15%	90%
Jan 19 - May 19	2,016,048	-29%	79%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Jun-18	£72.50	£59.67		£75.19	23
Jul-18	£85.50	£60.31	£45.97		
Aug-18	£75.00	£67.64	£48.38		
Sep-18	£77.50	£59.52	£45.16	£76.71	24
Oct-18	£83.00	£70.45	£41.50		
Nov-18	£69.00	£59.68	£48.78		
Dec-18	£77.50	£64.66	£49.17	£76.85	22
Jan-19	£83.50	£63.53	£42.00		
Feb-19	£76.00	£66.38	£45.43		
Mar-19	£85.00	£63.32	£48.50	£78.60	23
Apr-19	£83.00	£72.63	£45.63		
May-19	£80.00	£64.24	£54.17		

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
7,034,850	73%	-4.6%	5.5%
6,679,703	73%	-5.0%	5.3%
6,854,116	72%	2.6%	5.4%
7,035,243	74%	2.6%	5.5%
6,501,808	72%	-7.6%	5.1%
6,569,635	74%	1.0%	5.1%
6,826,661	72%	3.9%	5.3%
6,426,517	74%	-5.9%	5.0%
6,656,045	71%	3.6%	5.2%
6,727,363	73%	1.1%	5.2%
6,717,804	74%	-0.1%	5.2%
6,595,845	74%	-1.8%	5.1%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2019	2,073,457	1,503,857	3,577,314	58%
2020	2,899,207	2,924,750	5,823,957	15%
2021	2,214,376	691,778	2,906,154	43%
2022	1,153,674	2,428,380	3,582,054	0%
Total	8,340,714	7,548,765	15,889,479	26%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.4m
City Active Requirements (sq ft)	7.4m
City Total Requirements (sq ft)	9.8m
% change on 12 month ave	1%
Total under offer (sq ft)	1.9m
Under offer this month (sq ft)	162,439
% change on average (total)	44%
Landlord controlled supply	74%
Tenant controlled supply	26%

*Average prime rent is for preceding 3 months

** Average rent free on leases of 10 years with no breaks for preceding 3 months

Note: Completions due in the next 6 months are included in the current supply figures

Significant May transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
25 Cannon Street, EC4	Building	114,388	A	£68.00	Brewin Dolphin	Pembroke
Gresham St Pauls, 40 Gresham Street, EC2	G - 4, 5 part	86,975	A	£68.00	Smith & Williamson	AFIAA/Stanhope
100 Bishopsgate, EC2	18, 19	40,083	A	£77.50	Spaces (Regus)	Brookfield
Farringdon Place, 20 Farringdon Road, EC1	G	27,456	A	£45.00	Indeed.com	Improbable (Sub-Lessor)
TwentyTwo, 22 Bishopsgate, EC2	45	27,211	B	£80.00	RGA	Axa
15 St Helen's Place, Bishopsgate, EC3	3, 4, 5	25,036	A	Confidential	Spaces (Regus)	Brookfield
Tooley Street Terrace, 155-171 Tooley Street, SE1	Building	24,003	A	£55.00	The Body Shop	St Martins
Discovery House, 28-42 Banner Street, EC1	1, 2	20,868	B	£53.00	WeWork	Columbia Threadneedle
City Point, 1 Ropemaker Street, EC2	18	12,305	A	£70.00	Simpson Thacher	Brookfield
The Smithson, 6-9 Briset Street, EC1	LG, G	12,169	A	Confidential	Airsorted	SIM

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
70 St Mary Axe	EC3	159,045	further 52,403 sq ft under offer
The Scalpel, 52 Lime Street	EC3	133,771	further 47,411 sq ft under offer
Wenlock Works	N1	128,573	
Broadwalk House, 5 Appold Street	EC2	113,528	
30 St Mary Axe	EC3	107,097	
3 Minster Court	EC3	102,560	
100 Bishopsgate	EC3	97,144	
Devon House	E1W	93,684	
One Bartholomew	EC1	76,962	
The Bower (The Tower)	EC1	50,311	

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